

**BUY**  
 TP: Rs 5,832 | ▲ 16%

**BRITANNIA INDUSTRIES** | Consumer Staples | 12 November 2024

**Inflation offsets being put in place just in time**

- Compared to Bloomberg consensus, sales were 2% lower, EBITDA 12% lower as margin came in 200bps below expectations. Volumes +8.5%
- Rural recovery continues with sales up in high single digits, ~twice the urban run rate. We expect an acceleration in 2H (sales +14% vs 1H +6%)
- Retain BUY with revised TP of Rs 5,832. There is an upside potential to FY25 sales and earnings from the impending La Niña

**Sales and EBITDA miss on tough demand environment:** Sales were in line with our estimates and 2% below Bloomberg consensus, while EBITDA was 5% below our estimates and 12% below consensus. Urban slowed but BRIT’s market share remained intact. EBITDA margin came in 200bps below consensus partly due to higher share-based expenses (100bps impact).

**Offsets to inflation are in place:** While there was considerable inflation in palm oil, wheat, etc., the impact on Britannia 2Q results was not prominent as the company had hedged a proportion of COGS at a lower-than-current market cost. This will last until 3Q, post which BRIT plans to offset the cost increase through pricing / savings.

- **Pricing:** By Dec’24 / Jan’25 BRIT will put through 4% to 5% pricing at a consolidated level. This will be done in a calibrated manner and BRIT will remain watchful of competitor moves for market share implications.
- **Cost savings:** BRIT’s cost savings programme typically takes out 2% of sales, but this year it is likely to be double that run rate.

**Rural recovery on track:** Rural grew in high single digits and double the run rate of urban. Recovery continues to be consistent and we expect an acceleration in 3Q and 4Q partly driven by continued improvement in agri prospects.

**Our view and valuation:** BRIT remains our preferred pick in FMCG given its 40% rural sales exposure and an expanding distribution network. There is also an upside scenario from La Niña driven by unseasonal rains and extended / harsh winter season. We value BRIT at 55x 12M to Sep’26 EPS – a 10% premium to its historical average vs NIFTY 50. We reduce the TP to Rs 5,832 from Rs 6,862. Maintain BUY.

(Rs mn)	Q2FY24	Q2FY25	YoY (%)	Reported vs (%)	
				BOBCAPS	Consensus
Sales	44,329	46,676	5	0	(2)
EBITDA	8,724	7,834	(10)	(5)	(12)
EBITDA margin	19.7	16.8	(290bps)	(99bps)	(198bps)

Sources: Company, Bloomberg, BOBCAPS Research

**Lokesh Gusain**  
 research@bobcaps.in

**Key changes**

Target	Rating
▼	◀ ▶

Ticker/Price	BRIT IN/Rs 5,028
Market cap	US\$ 14.3bn
Free float	49%
3M ADV	US\$ 23.2mn
52wk high/low	Rs 6,470/Rs 4,626
Promoter/FPI/DII	51%/19%/30%

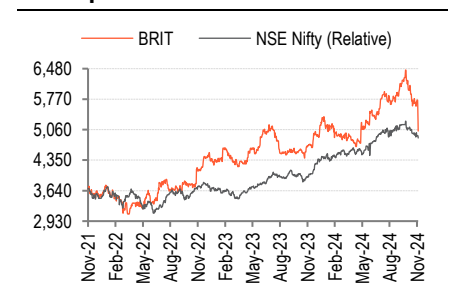
Source: NSE | Price as of 12 Nov 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	167,693	184,182	211,267
EBITDA (Rs mn)	31,698	34,485	40,750
Adj. net profit (Rs mn)	21,427	23,627	27,845
Adj. EPS (Rs)	88.9	98.1	115.6
Consensus EPS (Rs)	88.9	100.0	113.6
Adj. ROAE (%)	54.0	50.1	50.6
Adj. P/E (x)	56.5	51.3	43.5
EV/EBITDA (x)	38.2	35.1	29.7
Adj. EPS growth (%)	10.1	10.3	17.9

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



## 2QFY25 earnings review

### Earnings revisions

We cut our sales forecasts for FY25 and FY26 by 1% to 2% to account for elasticity impact from price rises planned to offset inflation. Our EBITDA forecasts are 1% to 5% lower due to lower gross margins as pricing makes its way through the system along with negative operating leverage on slower than the previous sales growth run rate.

**Fig 1 – BRIT earnings revisions**

(Rs mn)	Actual	New			Old			Change (%)		
	FY24	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	167,693	184,182	211,267	234,491	187,788	212,382	233,621	(2)	(1)	0
Gross Margins	43.4	43.3	43.7	43.7	44.1	44.1	44.1	(85bps)	(41bps)	(42bps)
EBITDA	31,698	34,485	40,750	45,195	36,302	41,032	45,136	(5)	(1)	0
EBITDA Margin (%)	18.9	18.7	19.3	19.3	19.3	19.3	19.3	(61bps)	(3bps)	(5bps)
Adj. PAT	21,427	23,627	27,845	31,068	25,038	28,272	31,272	(6)	(2)	(1)
Adj. EPS (Rs)	88.95	98.08	115.59	128.97	103.93	117.36	129.81	(6)	(2)	(1)

Sources: Company, BOBCAPS Research

### Valuation

The stock is currently trading at 55x FY25E EPS. BRIT has historically traded at 2.5x vs the NSE NIFTY 50 1-year forward EPS. We value BRIT at 55x 12M to Sep'26 EPS – a 10% premium to its historical average vs NIFTY 50. We cut TP to Rs 5,832 from Rs 6,862. Maintain BUY.

### Risks

Key downside risks to our estimates are:

- delayed rural recovery;
- lower-than-expected volume growth;
- excess or deficit monsoon, both of which are detrimental to agriculture and rural demand;
- heightened regional competition; and
- hyperinflation.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>163,006</b>	<b>167,693</b>	<b>184,182</b>	<b>211,267</b>	<b>234,491</b>
EBITDA	28,309	31,698	34,485	40,750	45,195
Depreciation	2,259	3,005	3,141	3,282	3,282
EBIT	26,050	28,694	31,344	37,469	41,914
Net interest inc./(exp.)	1,691	1,640	1,244	1,216	1,216
Other inc./(exp.)	2,159	2,142	2,087	2,142	2,142
Exceptional items	(3,756)	29	248	0	0
EBT	30,274	29,167	31,940	38,395	42,840
Income taxes	7,165	7,793	8,441	10,367	11,567
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(55)	(56)	(4)	5	6
<b>Reported net profit</b>	<b>23,217</b>	<b>21,398</b>	<b>23,379</b>	<b>27,845</b>	<b>31,068</b>
Adjustments	(3,756)	29	248	0	0
<b>Adjusted net profit</b>	<b>19,461</b>	<b>21,427</b>	<b>23,627</b>	<b>27,845</b>	<b>31,068</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	14,488	16,275	17,911	20,389	22,634
Other current liabilities	1,763	1,673	1,837	2,108	2,339
Provisions	5,390	5,898	6,447	7,351	8,125
Debt funds	29,805	20,412	20,112	19,812	19,512
Other liabilities	6,435	6,818	7,400	8,357	9,178
Equity capital	241	241	241	241	241
Reserves & surplus	35,404	39,419	46,437	54,785	64,100
Shareholders' fund	35,645	39,660	46,678	55,026	64,341
<b>Total liab. and equities</b>	<b>93,527</b>	<b>90,736</b>	<b>100,479</b>	<b>113,364</b>	<b>126,702</b>
Cash and cash eq.	1,024	3,228	8,325	14,760	21,869
Accounts receivables	3,289	3,933	4,320	4,955	5,500
Inventories	11,933	11,812	12,999	14,798	16,427
Other current assets	13,207	12,548	13,208	14,292	15,222
Investments	33,649	27,942	27,942	27,942	27,942
Net fixed assets	24,722	26,029	28,273	30,930	33,820
CWIP	1,050	1,875	1,875	1,875	1,875
Intangible assets	1,424	1,407	1,407	1,407	1,407
Deferred tax assets, net	573	439	482	553	614
Other assets	2,658	1,521	1,646	1,850	2,026
<b>Total assets</b>	<b>93,527</b>	<b>90,736</b>	<b>100,479</b>	<b>113,364</b>	<b>126,702</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>32,520</b>	<b>33,379</b>	<b>35,047</b>	<b>42,254</b>	<b>47,040</b>
Capital expenditures	(7,115)	(5,615)	(5,525)	(6,338)	(7,035)
Change in investments	(10,300)	8,302	0	0	0
Other investing cash flows	2,244	2,068	1,921	1,870	1,910
<b>Cash flow from investing</b>	<b>(15,171)</b>	<b>4,755</b>	<b>(3,604)</b>	<b>(4,468)</b>	<b>(5,125)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	2,292	(10,275)	(300)	(300)	(300)
Interest expenses	(1,957)	(1,643)	(1,244)	(1,216)	(1,216)
Dividends paid	(13,592)	(17,325)	(16,365)	(19,491)	(21,748)
Other financing cash flows	2,974	938	4	(5)	(4)
<b>Cash flow from financing</b>	<b>(10,284)</b>	<b>(28,305)</b>	<b>(17,905)</b>	<b>(20,984)</b>	<b>(23,239)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(192)</b>	<b>2,180</b>	<b>5,097</b>	<b>6,434</b>	<b>7,109</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,024</b>	<b>3,228</b>	<b>8,325</b>	<b>14,760</b>	<b>21,869</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	96.4	88.8	97.0	115.6	129.0
Adjusted EPS	80.8	88.9	98.1	115.6	129.0
Dividend per share	56.4	71.9	67.9	80.9	90.3
Book value per share	148.0	164.6	193.8	228.4	267.1

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	7.4	7.2	6.6	5.7	5.2
EV/EBITDA	42.8	38.2	35.1	29.7	26.8
Adjusted P/E	62.2	56.5	51.3	43.5	39.0
P/BV	34.0	30.5	25.9	22.0	18.8

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	76.7	73.4	73.2	72.5	72.5
Interest burden (PBT/EBIT)	89.1	74.6	74.6	74.3	74.1
EBIT margin (EBIT/Revenue)	16.0	17.1	17.0	17.7	17.9
Asset turnover (Rev./Avg TA)	174.3	184.8	183.3	186.4	185.1
Leverage (Avg TA/Avg Equity)	2.6	2.3	2.2	2.1	2.0
<b>Adjusted ROAE</b>	<b>65.1</b>	<b>54.0</b>	<b>50.1</b>	<b>50.6</b>	<b>48.3</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	15.3	2.9	9.8	14.7	11.0
EBITDA	28.6	12.0	8.8	18.2	10.9
Adjusted EPS	27.6	10.1	10.3	17.9	11.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	17.4	18.9	18.7	19.3	19.3
EBIT margin	16.0	17.1	17.0	17.7	17.9
Adjusted profit margin	11.9	12.8	12.8	13.2	13.2
Adjusted ROAE	65.1	54.0	50.1	50.6	48.3
ROCE	39.8	47.8	46.9	50.1	50.0
<b>Working capital days (days)</b>					
Receivables	7	9	9	9	9
Inventory	45	45	45	45	45
Payables	55	63	63	63	63
<b>Ratios (x)</b>					
Gross asset turnover	1.5	1.5	1.5	1.5	1.5
Current ratio	1.1	1.2	1.3	1.4	1.5
Net interest coverage ratio	15.4	17.5	25.2	30.8	34.5
<b>Adjusted debt/equity</b>	<b>0.8</b>	<b>0.5</b>	<b>0.4</b>	<b>0.4</b>	<b>0.3</b>

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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**BUY** – Expected return >+15%

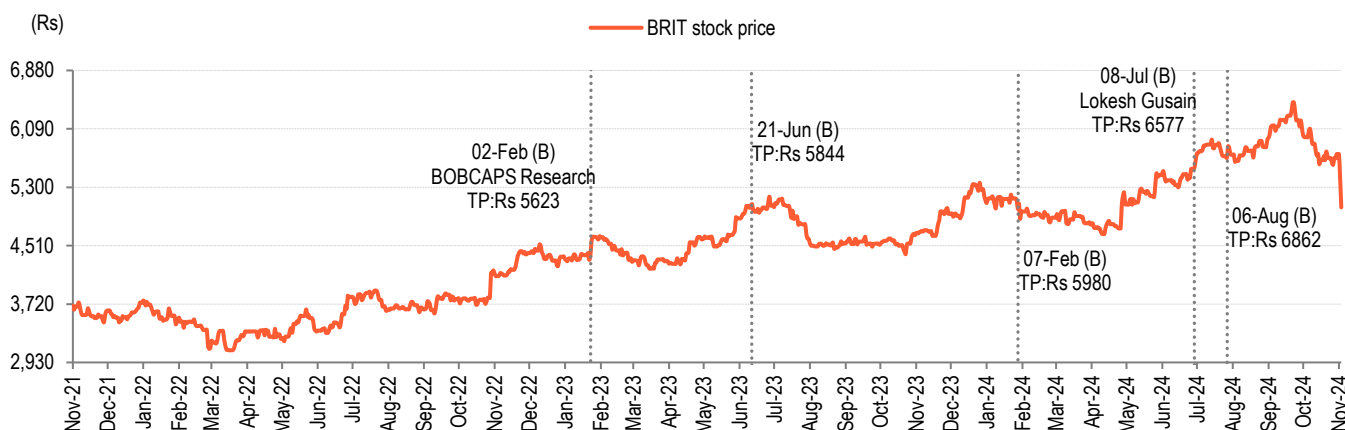
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): BRITANNIA INDUSTRIES (BRIT IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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